



MONTANA DEPARTMENT OF ADMINISTRATION

Local Government Services Bureau-Audit Review Program

301 South Park Avenue Room 340
PO Box 200547
Helena, MT 59620-0547

Phone: (406) 841-2909
FAX: (406) 841-2910
TDD: (406) 444-1421

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TO: All Auditors on the Department of Administration's Roster of Independent Auditors Authorized to Conduct Audits of Montana Local Government Entities

FROM: Kay Gray, CPA
Bureau Chief

RE: Revised Standard Audit Contract Dated 3/07 and New Transmittal Letters

Transmittal Letters

Enclosed are copies of the new transmittal letters. These new letters should be put into use immediately.

Standard Audit Contract

The enclosed standard audit contract, dated 3/07, replaces the previous version dated 7/01. There are a number of revisions to the contract, as described below. Most of these changes are not substantive in nature. A summary of the changes is outlined below.

Paragraph 1: This was formerly paragraph 23. We've moved this provision forward for emphasis.

Paragraphs 3 & 4: Former paragraph 29 contained elements considered essential for establishing an understanding with the client and which were included in the Contract to be used in lieu of a separate engagement letter. We've moved the contents of paragraph 29, incorporating the auditor's responsibilities into paragraph 3 and creating a new paragraph 4 for the entity's responsibilities. **In addition:**

- We've added **section 3.c.(4)** regarding testing of agency fund transactions as part of county audits.
- We've removed the reference to GASB 14 in **section 3.f.**, so that any GASB statement related to reporting entity (such as GASB 39) will be incorporated automatically.
- We've added **section 3.j.** related to the auditor's most recent peer review report, to address the requirement at GAS 3.55 (2003 Revision).

Paragraph 6: We've added a requirement that the **reason(s)** for requesting an extension of the due date of the audit contract be included when requesting the extension.

Paragraph 8: We've added **section c.** related to the determination of major school district funds, and we've added the requirement in **section d.** that biennial audits be submitted under one report cover.

Paragraph 9: We've added **section f.** to address the requirement at GAS 5.26 – 5.30 to include the entity's response to audit findings in the audit report, if that response is available at the time of report issuance. Please give the entity a reasonable opportunity to provide a response prior to the submittal of the report.

Paragraph 10:

- We've added **section a.(2)(e)**, requiring that non-federal expenditures be reported for a federal program, if applicable. This will generally only be applicable if non-federal revenues/receipts (i.e., program income or matching funds) are also reported for a program.
- We've removed the requirement (**former section #5.e.**) that the audit report either include or be accompanied by the A-133 "summary schedule of prior audit findings" that is required to be *prepared by the entity*. **Please note** that the *auditor-prepared* report on prior audit findings (the new section #9.e.) is still required. **Please also note** that this doesn't change the A-133 requirement that the auditor assess the reasonableness of this entity-prepared schedule as part of audit follow-up, and doesn't change the requirement that this schedule be submitted as part of the A-133 reporting package.

Paragraph 14: We've added a phrase to emphasize that all appropriate entity officials and employees be notified of the exit conference.

Paragraph 15:

- In **section c.**, we've emphasized the on-going contractual requirement that the final audit report be submitted to the entity and our Bureau at the same time.
- In **section f.**, we've added a sentence as a reminder that either a copy of the reporting package *or the alternative written notification* described in **section 320.e of A-133** must be submitted by the entity if the entity received federal funding indirectly through another pass-through entity (i.e., State agency, tribal government, etc.). Please review this section of A-133 so that you are aware of, and can assist the entity in submitting, this required element.

Paragraph 18: We've added the provision that, if required by our Bureau, the auditor must provide documentation that independence, as defined by the professional standards, has been maintained.

Paragraph 19: We've added the provision that any individual or firm that is subcontracted to perform audit work under this contract must qualify for and be listed on our Bureau's Roster of auditors authorized to conduct local government audits. In addition, we've emphasized the on-going contractual requirement that written approval must be obtained prior to entering into any such subcontract arrangement.

Paragraph 28: We've added a final provision, establishing that our Bureau won't approve the cancellation of an existing contract for the sole purpose of allowing the creation of a new contract that extends the number of fiscal years to be audited.

Appendices: We've revised the page numbering of the contract and related Appendices. The contract is now 12 pages, and stands on its own. The Appendices have been changed from 3 Appendix A's, to Appendix A, B and C to accommodate contracts encompassing more than one audit. If the contract is for only one audit (annual or biennial), only Appendix A should be attached.

- Section 3 has been added, requiring that any discretely presented component units be identified at the time of entering into the contract.
- Section 7 – the threshold for A-133-required audits has been revised for the current threshold of \$500,000, and to accommodate any future changes in the threshold.

These new contracts dated 3/07 should be put into effect immediately. We will continue to accept for a very limited time the standard audit contract dated 7/01 if signatures were dated prior to the time that you received the enclosed contract. Regardless of the time the first signature on the audit contract was dated, we will require that the new standard audit contract dated 3/07 be used for all audits for which the contract is received by the Department of Administration on or after May 31, 2007. Any 7/01 contracts received on or after that date will be returned without approval and must be resubmitted on the new contract form dated 3/07.

Some firms in the past have retyped the contract form into their own word processing systems. This has, unfortunately, resulted in typographical errors, omissions and other changes to the intended wording and content of the contract, whether intentional or not, and has resulted in contracts being returned for correction. **If you would like a copy of the standard audit contract, it is available in both MS Word and PDF formats on the Department of Administration's web site (<http://doa.mt.gov/lgsb/>). If you have any questions on the changes to the contract, or on obtaining an electronic version of the contract, please contact us.**